

Message Text

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ACTION SS-25

INFO OCT-01 ADP-00 SSO-00 CCO-00 NSCE-00 /026 W

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O 301630 Z MAR 73

FM AMEMBASSY CARACAS

TO SECSTATE WASHDC IMMEDIATE 9242

C O N F I D E N T I A L SECTION 1 OF 2 CARACAS 2727

EXDIS

E. O. 11652: GDS

TAGS: ENRG VE

SUBJECT: NEW OIL IMPORT REGULATIONS

REF: STATE 58729

1. PROPOSALS OUTLINED REFTTEL APPEAR TO PROVIDE CONSIDERABLE SCOPE FOR EVENTUAL NEGOTIATION OF ENERGY AGREEMENT WITH VENEZUELA, WHICH COULD BE BASED ON WAIVER OR REDUCTION OF LICENSE FEES ON IMPORTS OF OIL FROM VENEZUELA IN RETURN FOR DEVELOPMENT OF NEW RESERVES AND GUARANTEES FOR NECESSARY RELATED INVESTMENT. SCOPE FOR SUCH AN AGREEMENT, WHICH WE BELIEVE TO BE IN THE INTERESTS OF US AND VENEZUELA, IS MOST IMPORTANT FACTOR, IN EMBASSY JUDGMENT, IN DETERMINING ACCEPTABILITY THESE PROPOSALS FROM POINT OF VIEW US- VENEZUELA ENERGY RELATIONS.

2. TIMING FOR IMPLEMENTATION OF PROPOSALS DOES GIVE US SOME CONCERN. LICENSE FEE WOULD GO INTO EFFECT MAY 1, WELL BEFORE IT WOULD BE POSSIBLE FOR U. S. TO CONCLUDE AN ENERGY AGREEMENT WITH VENEZUELA. REALISTICALLY IT WILL BE DIFFICULT TO CONCLUDE SUCH AGREEMENT UNTIL AFTER NEW VENEZUELAN GOVERNMENT TAKES OVER MARCH 1974. HOWEVER, THIS IS NOT NECESSARILY IMPOSSIBLE, AS WITNESS VENEZUELA' S SUDDEN AND DRAMATIC ACCESSION TO ANDEAN PACT, WHICH NO PUNDIT SIX MONTHS AGO WOULD HAVE PREDICTED AS POSSIBLE UNTIL AFTER THE ELECTIONS. IF VENEZUELA COULD BE GRANTED WAIVER OF LICENSE FEE UNTIL ABOUT JULY 1, 1974, IT WOULD HELP US GET THROUGH INTERIM PERIOD WITHOUT DIFFICULTY AND WOULD ESTABLISH EXTREMELY USEFUL DEADLINE BY WHICH VENEZUELAN GOVERNMENT WOULD HAVE TO COME TO GERMS WITH US ON ENERGY AGREEMENT

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OR FACE HIGHER DUTIES ON ITS OIL SHIPMENTS TO U. S. MARKET.

3. ANOTHER ASPECT OF PROPOSALS THAT IS SOURCE FOR POSSIBLE CONCERN IS WHETHER MAXIMUM INCENTIVE THAT COULD BE PROVIDED UNDER PROPOSALS (WAIVER OF LICENSE FEE) WOULD PROVIDE SUFFICIENT INCENTIVE FOR DEVELOPMENT OF ORINOCO PETROLEUM BELT. MAXIMUM INCENTIVE RESULTING FROM WAIVER OF LICENSE FEE WOULD ONLY BE 42 CENTS PER BARREL OR PERHAPS SOMEWHAT MORE IF OIL FROM ORINOCO BELT IS UPGRADED TO CONVERT PORTION OF IT TO NAPHTHA OR OTHER LIGHT PRODUCTS ON WHICH LICENSE FEE WOULD BE 84 CENTS PER BARREL. GIVEN ANTICIPATED HIGH PRODUCTION COST OIL FROM ORINOCO BELT, EMBASSY HAS ASSUMED THAT DEVELOPING THIS ENORMOUS RESERVE, WHICH COULD BE OF SUCH GREAT HELP IN MEETING U. S. OIL NEEDS, WOULD REQUIRE INCENTIVES FROM BOTH U. S. AND VENEZUELAN GOVERNMENTS. WE ASSUME THAT VENEZUELA WOULD PROVIDE LOWER TAX REFERENCE VALUE OR LOWER TAX RATE TO ENCOURAGE DEVELOPMENT THIS RESOURCE AS PART OF OVERALL ENERGY AGREEMENT WITH U. S. WHETHER THAT INCENTIVE, COUPLED WITH EXEMPTION FROM LICENSE FEE WHICH U. S. COULD OFFER, WOULD BE SUFFICIENT INCENTIVE FOR DEVELOPMENT OF ORINOCO BELT, EMBASSY IS NOT IN POSITION TO ESTIMATE AT THIS TIME.

4. RE OPTIONS MENTIONED PARA THREE REFTTEL, EMBASSY WOULD STRONGLY ADVISE AGAINST ELIMINATION OF ALL LICENSE FEE EXEMPTIONS. WHILE SUCH AN ARRANGEMENT WOULD BE SUPERFICIALLY ATTRACTIVE IN PROVIDING AN EQUALITY OF TREATMENT FOR VENEZUELA, CANADA, AND MEXICO, IT WOULD ELIMINATE POSSIBILITY OF ENERGY AGREEMENT WITH VENEZUELA WHICH WE BELIEVE IS BEST HOPE FOR PUTTING US- VENEZUELAN PETROLEUM RELATIONS ON A SOUND BASIS OF MUTUAL INTEREST. IT WOULD BE A " LEVELING" OR EQUALIZING- DOWNWARD PROCESS UNDER WHICH VENEZUELA AND CANADA, WHICH ALL USG STUDIES OF ENERGY POLICY HAVE FOUND TO BE MORE SECURE AND RELIABLE SOURCES OF PETROLEUM, WOULD BE GIVEN NO BETTER TREATMENT THAN THE LEAST SECURE AND LEAST FRIENDLY OF THE ARAB SOURCES (E. G. LIBYA). SUCH ELIMINATION OF POSSIBILITY OF PREFERENTIAL TREATMENT WOULD MEAN THAT OIL RESOURCES OF ORINOCO BELT (ESTIMATED AT 70 BILLION BARRELS RECOVERABLE OIL) WOULD NOT BE DEVELOPED FOR MANY YEARS TO COME, IF AT ALL. THIS WOULD BE IMPORTANT LOSS IN AND OF ITSELF, BECAUSE AS MOST ECONOMICALLY PRODUCIBLE VERY LARGE KNOWN SOURCE OF UNDEVELOPED OIL THIS HEMISPHERE, ORINOCO BELT OFFERS MOST EFFECTIVE

COUNTER WEIGHT TO ENORMOUS RESERVES OF MIDDLE EAST AND TO
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UNDESIRABLY RAPID RATE OF GROWTH OF DEPENDENCE ON LESS SECURE

SOURCES FOR U. S. OIL IMPORTS. MOREOVER, EMBASSY BELIEVES THAT NEGOTIATING AN AGREEMENT WITH VENEZUELA FOR DEVELOPMENT OF ORINOCO BELT WOULD ALSO BE KEY TO GETTING VENEZUELAN GOVERNMENT TO OPEN UP PROMISING OFFSHORE AREAS OF VENEZUELA'S CONTINENTAL SHELF TO EXPLOITATION BY U. S. OIL COMPANIES UNDER SERVICE CONTRACTS, JOINT VENTURES OR OTHER APPROPRIATE ARRANGEMENTS.

5. RE SECOND OPTION, PARA THREE, EMBASSY WOULD OBVIOUSLY FIND ATTRACTIVE THE IDEA OF WESTERN HEMISPHERE PREFERENCE FOR NON- CONVENTIONAL OILS. WE NOTE, HOWEVER, MENTION OF DIFFICULTIES DEPARTMENT FORESEES IN GETTING AGREEMENT ON SUCH A POLICY AND WE THINK THAT WESTERN HEMISPHERE PREFERENCE IS A MORE SALEABLE PROPOSITION, AND A BETTER PROPOSITION, IF OFFERED NOT ON A UNILATERAL UNCOMPENSATED BASIS BUT AS PART OF OVERALL ENERGY AGREEMENT WITH VENEZUELA UNDER WHICH U. S. WOULD RECEIVE IN RETURN CONCESSIONS OF REAL VALUE-- DEVELOPMENT OF LARGE ADDITIONAL OIL RESERVES AND GUARANTEES FOR PRIVATE INVESTMENTS THAT WOULD BE NECESSARY TO DEVELOP SUCH RESERVES.

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ACTION SS-25

INFO OCT-01 ADP-00 SSO-00 NSCE-00 CCO-00 /026 W
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O 301630 Z MAR 73
FM AMEMBASSY CARACAS
TO SECSTATE WASHDC IMMEDIATE 9243

C O N F I D E N T I A L SECTION 2 OF 2 CARACAS 2727

EXDIS

RELATED IDEA OF CONTINUATION OF FORMER 50 MBD QUOTA FOR BO. 2 FUEL OIL, THUS MAKING THAT PRODUCT FREE OF LICENSE FEE, WOULD ALSO BE ATTRACTIVE BUT IT WOULD BE MORE ATTRACTIVE AS PART OF OVERALL ENERGY AGREEMENT THAN AS A SEPARATE QUOTA IN WHICH COUNTRIES OUTSIDE HEMISPHERE MIGHT SHARE. RIGHTLY OR WRONGLY GOV CONTINUES TO BELIEVE IT HAS A U. S. PRESIDENTIAL PROMISE OF A SPECIAL QUOTA OF 50,000 BB OF NO. 2 FUEL OIL.

6. RE PARA FOUR REFTTEL, EMBASSY AGREES THAT LANGUAGE REFERRING TO NEGOTIATION OF FEE EXEMPTIONS HAS UNSUBTLE AND ABRASIVE TONE. WE WOULD FAVOR SOFTENING THE LANGUAGE WITHOUT CHANGING SUBSTANCE.

SUBSTANCE WILL BE DASH OF COLD WATER IN FACE, AND MAY IN LONG RUN BE SALUTARY IN AWAKENING VENEZUELAN POLITICIANS AND PUBLIC TO NEED TO TAKE ACCOUNT OF PETROLEUM POLICY INTERESTS THEIR BEST CUSTOMER (U. S) IF THEY EXPECT TO RECEIVE THEMSELVES ANY KIND OF PREFERENTIAL TREATMENT FOR THEIR PETROLEUM EXPORTS. HOWEVER, WE SHOULD BE UNDER NO ILLUSION THAT IMMEDIATE REACTION WILL BE ONE OF ANGER, A FEELING OF BETRAYAL, AND A POSSIBLE BLIND DESIRE TO TAKE OUT REVENGE ON OUR OIL COMPANIES.

7. EMBASSY BELIEVES POSSIBILITY THAT PROVISION FOR WAIVER OF LICENSE FEE FOR PETROLEUM FROM CANADA AND VENEZUELA COULD BE CONSTRUED AS " DECISION BY USG TO FOLLOW BILATERAL RATHER THAN SEEKING MULTI- LATERAL ARRANGEMENTS TO DEAL WITH ENERGY PROBLEMS" IS NOT RPT NOT A REAL DANGER. ALL CANADIAN OIL EXPORTS GO TO US MARKET. MOST VENEZUELAN OIL EXPORTS ALSO GO TO US MARKET (ABOUT 50 PERCENT) OR TO CENTRAL AMERICAN COUNTRIES OR TO CARIBBEAN REFINERIES (SOME OF WHICH FOR RE- EXPORT TO U. S.). VENEZUELA, OWING TO INCREASING TAX PAID COST OF ITS OIL IN
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RECENT YEARS, IS MINOR AND DMINISHING SUPPLIER OF EUROPEAN MARKETS. SINCE COUNTRIES THAT WOULD BENEFIT FROM WAIVER OF LICENSE FEES ARE AND WILL BE PREDOMINANTLY SUPPLIERS TO US, USG COULD NOT BE ACCUSED OF ANY ATTEMPT MAKE BILATERAL DEALS AT EXPENSE OTHER CONSUMING COUNTRIES. NOR COULD USG BE ACCUSED OF SUBSTANTIALLY DISADVANTAGING OTHER SUPPLIER COUNTRIES SINCE EVEN WITH PROPOSED REFERENCES US WILL BE BUYING INCREASING PORTION ITS OIL IMPORTS FROM SOURCES OUTSIDE WESTERN HEMISPHERE.

8. FURTHERMORE, WE DISCOVER WHAT WE FEAR MAY BE A POTENTIALLY FATAL FLAW IN THIS WHOLE SCHEME, AT LEAST FROM STANDPOINT OF U S- VENEZUELAN RELATIONS. THIS IS PROVISION FOR NEW REFINERIES AND EXPANSIONS OF EXISTING REFINERIES ARE TO BE EXEMPT FROM LICENSE FEES. IF THEY ARE TO BE EXEMPT , AND OLD REFINERIES ARE TO BE EXEMPT WITH RESPECT TO THEIR CURRENT ALLOCATIONS FOR A PERIOD OF FICE YEARS , AND PONTENTIALLY EXEMPT FOR A SUBSEQUENT FIVE YEAR PERIOD, WHEREIN LIES THE ELEMENT OF POSSIBLE PREFERENCE FOR VENZUELA? ANY PREFERENCE THAT WE MIGHT BE ABLE TO NEGOTIATE AS PART OF AN ENERGY AGREEMENT WITH VENEZUELA WOULD BE MEANINGLESS IF MOST POTENTIAL IMPORTERS ARE GOING TO BE IN A POSITION TO BE EXEMPT FROM LICENSE FEES EVEN IF THEIR IMPORTS COME FROM SUPPOSEDLY NONEXEMPT SOURCES OUTSIDE OF THE HEMISPHERE. WE DO NOT KNOW WHAT IF ANYTHING COULD BE DONE ABOUT THIS PROBLEM, BUT IT COULD NEGATE EVERYTHING WE ARE TRYING TO DO HERE. ONE POSSIBLE SOLUTION WOULD BE TO MAKE LICENSE FEE EXEMPTION FOR NEW REFINERIES, AND EXPANSIONS OF EXISTING REFINERIES, CONDITIONAL ON TAKING THEIR IMPORTS (OR MAJOR PORTIONS OF THEIR IMPORTS) FROM SOURCES IN THE HEMISPHERE. SUCH A LIMITATION MIGHT ONLY GO INTO EFFECT AFTER AN ENERGY AGREEMENT HAD BEEN NEGOTIATED WITH

VENEZUELA.

9. IN THIS TELEGRAM WE HAVE TALKED FREELY OF OUR INTEREST IN THE ORINOCO PETROLEUM BELT, BUT I WISH IT CLEARLY UNDERSTOOD BY ALL AGENCIES THAT A GOVERNMENT- TO- GOVERNMENT NEGOTIATION BY THE U. S. AND VENEZUELA SHOULD CONFINE ITSELF TO THE DRAFTING OF BASIC PRINCIPLES WHICH WILL GOVERN FUTURE INVESTMENT AND EXPLOITATION OF PETROLEUM RESERVES WITHOUT SPECIFICALLY NAMING ANY PARTICULAR AREA. WE HAVE ALREADY NOTED THE PUBLICLY EXPRESSED INORDINATE SENSITIVITY OF THE MINISTER OF MINES AND HYDROCARBONS TO WHAT HE CONCEIVES TO BE OUR PERHAPS SINISTER DESIGNS IN TAKING VENEZUELA'S PARTIMONY IN THE ORINOCO BELT, WHICH HE CLAIMS IS " NOT NEGOTIABLE." THEREFORE, IN MY FORTH-
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COMING DISCUSSIONS WITH AMBASSADOR SOSA RODRIGUEZ
I SHALL CONFINE MY REMARKS ONLY TO GENERAL PRINCIPLES AND NOT SPECIFICS OTHER THAN AS PREVIOUSLY AUTHORIZED IN OUR THREE ALTERNATIVE SUGGESTIONS FOR A POSSIBLE " AGENDA." I DO FEEL, HOWEVER, THAT IN TRACTING THE VARIOUS POSSIBILITIES WHICH MAY BE FORTHCOMING ONCE OUR ENERGY POLICY HAS BEEN PROCLAIMED, I CAN FAIRLY ASSERT THAT WE HAVE BEEN CONSULTING WITH VENEZUELA PRIOR TO AND NOT AFTER THE EVENT. THEREFORE ANY INFORMATION WHICH DEPARTMENT AND OTHER INTERESTED AGENCIES CAN AUTHORIZE ME TO IMPART TO AMBASSADOR SOAA WHEN HE LUNCHESES WITH ME ALONE ON APRIL 2 WOULD BE OF UTMOST VALUE.
MCCLINTOCK

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*** Current Handling Restrictions *** EXDIS

*** Current Classification *** CONFIDENTIAL

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 30 MAR 1973
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973CARACA02727
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: RR
Errors: n/a
Film Number: n/a
From: CARACAS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730344/aaaaiqkj.tel
Line Count: 259
Locator: TEXT ON-LINE
Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: 73 STATE 58729
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 23 JAN 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23-Jan-2002 by kelleyw0>; APPROVED <13 FEB 2002 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> wfs 980121
Subject: NEW OIL IMPORT REGULATIONS
TAGS: ENRG, VE
To: SECSTATE WASHDC
SS
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005